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INFO RUEHBR/AMEMBASSY BRASILIA 8596
RUEHCV/AMEMBASSY CARACAS 1562
RUEHLP/AMEMBASSY LA PAZ JAN LIMA 6927
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RUEHQT/AMEMBASSY QUITO 7625
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RUEHME/AMEMBASSY MEXICO 9642
RUEHSG/AMEMBASSY SANTIAGO 2477
RUEHMU/AMEMBASSY MANAGUA 2458
RUEHSJ/AMEMBASSY SAN JOSE 5297
RUEHTG/AMEMBASSY TEGUCIGALPA 1878
RUEHSN/AMEMBASSY SAN SALVADOR 2348
RUEHGT/AMEMBASSY GUATEMALA 2939
RUCPDO/DEPT OF COMMERCE WASHDC
RUEATRS/DEPT OF TREASURY WASHDC

UNCLAS BOGOTA 000239

SENSITIVE
SIPDIS

WHA/EPSC ROONEY
STATE PASS USTR M. CARRILLO

E.O. 12958: N/A
TAGS: [ECON](#) [ETRD](#) [CO](#)
SUBJECT: COLOMBIAN COFFEE, TEXTILES AND FLOWERS BRACE FOR
ECONOMIC DOWNTURN

REF: A. BOGOTA 15
[1](#)B. BOGOTA 7
[1](#)C. 08 BOGOTA 3076

[1](#)1. (U) SUMMARY. Four and a half million Colombian jobs depend directly or indirectly on the coffee, textile/apparel and flower sectors. The three combine for 15 percent of Colombia's exports and trail only oil and coal as Colombia's most significant export products. With unemployment rising and industrial production falling, the success of these sectors will have a significant impact on how Colombians weather the global economic downturn. While particulars of each industry color its outlook, there is substantial concern emanating from all three sectors on prospects for 2009, despite the expectation for a much more favorable exchange rate than Colombia enjoyed for most of 2008. END SUMMARY.

COFFEE: A CHEAPER CUP OF JOE STILL REQUIRES COFFEE BEANS

[1](#)2. (SBU) Of the three sectors, coffee seems the most sanguine. Coffee is responsible for 32 percent of rural employment in Colombia, which exports 90 percent (USD two billion) of its coffee production. Some 85 percent of exports go to North America and Europe, in equal proportions. National Coffee Federation (Fedecafe) President Gabriel Silva said he expects world demand for coffee to continue to grow at an annual rate of 2 percent, arguing that in economic downturns, consumers will simply switch to cheaper coffee rather than abandon their caffeine conduit altogether. According to Silva, global supply will be down in 2009 due to floods in major coffee-producing countries. He expects prices to remain relatively stable.

[1](#)3. (SBU) Silva confirmed that Fedecafe is taking advantage of the economic downturn's negative impact on Starbucks' share price to pursue an interest in the company. Fedecafe's goal would be to attain sufficient shares to have board representation. Despite this move, he characterized 2009 as a year of survival mode for the industry, noting that Fedecafe had shelved plans to open Juan Valdez coffee shops

in Asia. Silva said he expected employment in the sector to remain constant. Colombia has two million acres under coffee cultivation, including 300,000 which are being renovated to replace older, less productive bushes with younger, higher-yielding ones. Fedecafe's goal is to increase exports from 12 million sacks in 2009 to 17 million in 2014.

TEXTILES: AN INDUSTRY HANGING BY A THREAD

¶4. (SBU) The textile/apparel sector has a much greater domestic consumer base than the other two industries, but nonetheless exports 30 percent of textile production and 65 percent of apparel. Ivan Amaya, President of the Association of Colombian Textile Producers (Ascoltex) painted a bleak picture for 2009. Production fell by 6 percent in 2008, including contractions in October and November despite the more favorable peso-dollar exchange rate. Amaya ticked off five challenges facing the industry: 1) legal imports from China; 2) contraband imports of textiles that have become the method of choice for money launderers; 3) recurring uncertainty over ATPDEA extensions in an industry with three-to six-month lead times for orders; 4) the declining purchasing power of it's number one export destination (Venezuela) due to lower oil prices; and 5) Ecuador's promise to erect barriers to imports of a host of goods, including textiles/apparel. Amaya noted that the sector shed 24,000 jobs in 2008, principally in small factories that were forced to close, reducing the labor force to 220,000, . He did not exclude the possibility of further job cuts for 2009.

FLOWERS: FEB 14 DETERMINES WHETHER THEY FLOURISH

¶5. (SBU) Cut flowers is big business for Colombia, which exported 1.1 billion dollars worth in 2007. Richard Franklin, Deputy Director of the Colombian Association of Flower Exporters Asocoflores admitted that the organization did not even keep statistics on overall flower production since more than 95 percent of Colombian flowers are exported. Of these, 80 percent go to the United States. While future free trade agreements with Canada and the EU (Ref A) offer the potential for more flower exports on the margins, the U.S. will remain the dominant market for Colombian flowers.

¶6. (SBU) Franklin underscored the importance of Valentine's Day, which accounts for 20 percent of annual sales of Colombian flowers exported to the U.S. All eyes will be on the results of this Valentine's Day season to get a sense of what kind of demand the sector can expect in 2009. Franklin noted the sector's apprehension about Valentine's Day falling on a weekend for the first time in five years, likely meaning more flower purchases from grocery stores than from florists, which in turn may mean more bouquets and fewer roses, which could translate into decreased revenue.

¶7. (SBU) Asocoflores Economics and Logistics Director Andrea Gonzalez pointed out that the peso's appreciation from 2003 to mid-2008 (Ref C) had taken a toll on the sector in the form of some 13,000 lost jobs. The flower industry currently is responsible directly and indirectly for just under 200,000 jobs. Gonzalez acknowledged the welcome respite a weaker peso had provided over the past several months, adding that in addition to U.S. demand, the exchange rate is the main variable that will determine the sector's success in 2009. Asocoflores is working with its counterparts in the U.S. on marketing campaigns highlighting flowers as an "inexpensive luxury" appropriate for tough economic times when more costly indulgences seem imprudent. As Franklin put it, "Our competition is not Ecuadorian flowers; our competition is jewelry and chocolates that people would give instead of flowers."

COMMENT: NO ILLUSIONS AMONG COLOMBIAN EXPORTERS

¶8. (U) Industrial production fell 13.3 percent in November

(compared with the previous November), and Colombia lost 600,000 jobs in 2008. November unemployment reached 10.8 percent. Economic growth forecasts for 2009 continue to be revised downward (Ref B). Add to this bleak backdrop the economically troubled times in Colombia's top three export destinations (the U.S., Venezuela and Ecuador), and Colombian exporters (and, by extension, their employees) are bracing for a tough 2009.

BROWNFIELD